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RUEHBU/AMEMBASSY BUENOS AIRES 5322
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SUBJECT: COUER D'ALENE'A SAN BARTOLOME MINE SLATED TO BEGIN
PRODUCTION IN JANUARY 2008

Classified By: Acting EcoPol Counselor Brian Quigley for reasons 1.4 (b)
) and (d).

Summary

1. (C) In conjunction with an Overseas Private Investment Corporation (OPIC) due-diligence visit, Emboff received a briefing on the status of the San Bartolome project at the La Paz offices of Manquiri (Idaho-based Couer D'Alene's Bolivian subsidiary) on June 1 and visited the San Bartolome site in Potosi on June 4. Although the GOB's proposed tax regime changes continue to worry Manquiri executives, the site is under full construction and engineers estimate production will begin in January of 2008. On-site officials speak of Couer D'Alene's interests in Bolivia over the next fifty or more years (based on further exploration), and for this reason the San Bartolome operation is being managed with an aim of creating long-term, positive ties with the community.

Overview

2. (SBU) Bolivia is Couer D'Alene's South American headquarters, and according to Manquiri President Jim Duff (USC), the silver in the San Bartolome project makes up one third to one half of the value of the Idaho-based corporation. The San Bartolome project consists of a number of silver-bearing gravel deposits on the flanks of the Cerro Rico, Potosi's famous "rich hill". Some of the deposits are naturally occurring, while others are waste from past mining activity. The project will include a small smelter on-site, producing the only metallic silver in the Potosi area (other miners export concentrate to smelters out of the country.) The mine is projected to have a 14 year life, ending in complete environmental remediation (including capping and

topsoiling of the tailings containment area.) In addition, Manquiri has agreed to remove to their tailings disposal area certain pre-existing waste dumps that are currently a source of acid-drainage. For this reason, the project is expected to have a net positive environmental effect, and Manquiri officials say that they consider the project to be one-third mining, one-third environmental remediation, and one-third political.

Political Issues

13. (C) The most difficult component is the political one. Manquiri is attempting to keep close ties with the Mining Ministry and the Bolivian Mining Corporation (COMIBOL), despite the GOB and COMIBOL's general lack of administrative experience and qualified personnel. At the June 1 meetings, Vice Minister Pedro Mariobo Moreno and COMIBOL president Hugo Miranda Rendon were unclear on a number of basic elements of the project, despite regular meetings with Manquiri. The Vice Minister also raised the possibility that the GOB might ban all mining on the Cerro Rico due to structural concerns. (Comment: Such a decision would force San Bartolome to shut down, which the Vice Minister acknowledged, although he did not comment on the thousands of independent miners who would violently protest such a decision. Manquiri has offered to collaborate on a geotechnical survey of the mountain, but according to Duff the Ministry has failed to accept the offer and Manquiri cannot undertake the survey without records held by the GOB. The fact that Manquiri plans to use mining methods that avoid the possibility of heavy equipment falling into undermined areas suggests that they are concerned about

this possibility. The odds that the whole mountain will collapse--as the Vice Minister suggested--are low, but local cave-ins are possible. End comment.)

14. (C) The project is somewhat protected from GOB decisions by the fact that Manquiri subleases its mining concessions from the Potosi Departmental Federation of Mining Cooperatives (FEDECOMIN Potosi). Manquiri officials repeatedly stated that San Bartolome is safe from nationalization because they do not own any mining rights. Privately, however, project officials concede that once their multi-million-dollar infrastructure is in place, nationalization may become a more threatening prospect. Nevertheless, officials at the site mentioned future Couer D'Alene exploration in Bolivia and said that company leadership is "looking beyond Morales." Despite occasional difficulties with the GOB, Manquiri assures us that both Mining Minister Luis Alberto Echazu and Comibol President Miranda support the project.

Community Issues

15. (C) For reasons of international law as well as to strengthen community ties, Manquiri is focused on safety, and to date there have been no lost-time accidents at the site. Mining officials told emboff that in the rest of the Potosi mining area, there are an average of 2-3 miner deaths per month (comment: the GOB does not maintain reliable statistics. End comment.) Manquiri's average workers' salary of USD400 per month is generous by local standards, and they offer health benefits unavailable to independent miners. Manquiri has also helped a local indigenous group form a construction company, financing their equipment purchases and giving them generous contracts at the mine. In addition, Manquiri plans to create a USD300 thousand non-profit group that will support sustainable development and tourism in the area. Manquiri's relations with the FEDECOMIN Potosi are also good, partially because the cooperatives are already receiving payments from Manquiri and will receive millions of dollars once production starts.

Comment

¶16. (C) Despite international concerns over investment in Bolivia, Idaho's Couer D'Alene is committing itself heavily to the country. Projected investment in San Bartolome is roughly USD175 million, with over USD20 already invested. Some exploration is ongoing, with more planned. Couer D'Alene's emphasis on the 'Bolivian-ness' of their South American operations indicates that they plan to increase their presence in Bolivia, despite doubts raised by GOB decisions on such issues as rights to mining concessions and tax-levels for the mining industry. The GOB mining officials' lack of even basic industry knowledge is worrisome. The Vice Minister's obvious preference for political rhetoric over practical issues critical to the industry foreshadows a difficult working relationship with the private sector. End comment.

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